BRITISH COLUMBIA MILK MARKETING BOARD

Annual Report

For The Dairy Year
2002 - 2003

Fourteenth Annual Report
July 31, 2003

B.C. Milk Marketing Board

2003 Annual General Meeting

Chairman	John Jansen
Vice-Chairman	Ben Cuthbert
Secretary-Treasurer	Ben Janzen
Board Member	Charlie Iberg
Board Member	Corny Klop
Milk Industry Advisory Committee Chairman	Gordon Souter
Transportation Advisory Committee Chairman	Corny Klop
Audit Committee Chairman	Louis Schurmann
General Manager	Thomas Demma
Assistant General Manager	Jim Byrne
Comptroller	Robert Delage
Provincial Milk Manager	Warren Penner
Transportation Coordinator	Gary Broerken
Transportation Coordinator	Kelly Harris
Policy Analyst	Geneviève Laniel
Program Manager	Scott Miles
Finance Officer	Barbara Pacholko
Quota Officer	Jennifer Lavoie
Milk Pay Officer	Sandra Livingston
Receptionist	Kelly Fairbanks
Herd Inspector	John Lockhart
Financial Institution	Bank of Montreal
Auditors	KPMG LLP - Chilliwack
Vendor Auditors	KPMG LLP - Chilliwack
Legal Counsel	Macaulay McColl

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104-07665/

FOURTEENTH ANNUAL GENERAL MEETING

WEDNESDAY, NOVEMBER 12, 2003
RAINBOW COUNTRY INN
43971 INDUSTRIAL WAY
CHILLIWACK, BRITISH COLUMBIA

AGENDA

Call to Order	10:00 a.m.
Reading of the Notice of Meeting	
Approval of the Minutes of the Thirteenth AGM	
Business Arising from the Minutes	
Chairman's Statement	John Jansen
Report of the Audit Committee	Louis Schurmann
Auditors' Report	KPMG
Financial Statements	Ben Janzen
Appointment of Auditor	Louis Schurmann
Approval of Members' Remuneration	Louis Schurmann
Review of Statistical Information	John Jansen
Report on Legal Issues	John Jansen
New Business	
Adjournment	12:00 noon

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CHAIRMAN'S STATEMENT

The British Columbia Milk Marketing Board (BCMMB) faced many challenges this year that were different from last year. While during the 2001/2002 dairy year the Board's attention was more focused on provincial issues such as first receiver duties and security of milk delivery, this reporting period saw a greater emphasis on national and Western Milk Pool (WMP) matters.

The World Trade Organization (WTO) ruling regarding Canada's trade in dairy products served as a catalyst for the dairy industry to examine its long term future. The challenge of the new global environment is to balance the interests of all dairy industry stakeholders with the desire to grow the British Columbia dairy sector. Prior to the WTO ruling, regulatory provisions enabled the production of Commercial Export Milk that was considered to be outside the regulated milk marketing system. With the regulatory changes made to the BCMMB scheme in March 2003 the provisions enabling the production of milk not governed by regulation were eliminated. Consequently, all milk produced in the province must be shipped by licensed producers that have been allotted Total Production Quota by the BCMMB.

National issues that were addressed through ad hoc committees established by the Canadian Milk Supply Management Committee (CMSMC) included the determination of Market Sharing Quota (MSQ), the impact of the 101 rule, differences in industrial milk class prices in the two regional pools, and milk classification as it relates to the skim-off calculation. Participation on these committees was geared to bringing resolution to issues that are of concern to British Columbia and the WMP.

A number of issues remain before the WMP. Chief among these are revenue sharing practices, milk quota distribution and governance matters. Ultimately, the WMP agreement needs to be amended to enable provincial production relative to that province's market, pricing and revenue determination relative to specific provincial criteria, and other matters recognizing the changing demographics in each province.

The issue of being responsive to the needs of niche or emerging markets, and particularly the needs of processors for "differentiated" milk, continues to be recognized by the Board. British Columbia is a major participant in the Domestic Dairy Product Innovation Program (DDPIP) and the Board encourages and assists processors that submit DDPIP applications.

During the 2002/2003 dairy year a series of hearings related to appeals filed with the British Columbia Marketing Board (BCMB) in 2001 and 2002 regarding BCMMB decisions pertaining to freight charges were held. The appeal process was completed with a hearing that was held in July 2003. However, at the time of publication, the BCMB had not yet rendered its decision.

As the result of an appeal filed with the BCMB in April 2003 regarding the Graduated Entry Program (GEP), the Board has committed to holding an information meeting about the GEP on November 5, 2003. The purpose of this meeting is to receive feedback about the GEP from dairy industry stakeholders.

The Board Members and I sincerely appreciate the support and advice we have received from the British Columbia Milk Producers Association and the regional dairy organizations. As well, the recommendations provided to the Board by the Milk Industry Advisory Committee (MIAC) and the Transportation Advisory Committee (TAC) have been extremely useful for guiding Board decisions on pricing and supply matters and transportation issues respectively.

On behalf of the Board, I would like to express appreciation to all producers, processors and transporters who have provided input to resolve the issues facing the dairy industry. With all stakeholders working together we can continue to successfully address future challenges.

Respectfully submitted,

John Jansen
Chairman

GENERAL MANAGER'S REPORT

Legislative and regulatory compliance and governance of the British Columbia Milk Marketing Board (BCMMB) are the responsibilities of the Chairman and the Board Members as supported by staff. Regulatory obligations are met through the work of the Board, the Milk Industry Advisory Committee (MIAC) and the Audit Committee.

As part of its consultation practices the Board holds producer meetings in a number of locations throughout the province during the spring and fall. From time to time, the Board establishes working groups for the purpose of having certain issues examined by producers and processors. Non-binding recommendations from the working groups are submitted to the Board for its consideration. In addition to the aforementioned consultation practices, Board Members regularly meet with producer and processor organizations. In aggregate, the consultation process permits the examination of Board regulation and policy, and provides for the opportunity to obtain input and feedback from dairy industry stakeholders.

Responsibility for day to day BCMMB operations resides with the General Manager. With the assistance of eleven full-time employees, requisite regulatory and administrative duties are performed. The BCMMB is organized on the following basis: Finance, Administration and Information Technology Division; Board Governance, Communications and Human Resources Division; and the Milk Order and Transportation Division.

Not to the exclusion of others, duties and responsibilities are:

- maintain a register of licensed producers;
- license all producers, vendors, producer-vendors and milk transporters;
- allot milk quota to licensed producers;
- serve as the registrar of milk quota and administer the transfer of quota among producers;
- administer timely changes to published milk prices;
- administer the monthly producer equalization pool, including the reconciliation of milk production with reported processed industrial milk product production and fluid sales;
- administer the collection of levies from producers as required by provincial statute and remit said funds to the British Columbia Dairy Industry Development Council;
- prepare and disseminate accurate and timely industry information through established communication devices including newsletters, brochures, web sites and broadcast e-mail;
- liaise with government, British Columbia dairy and agriculture organizations and other milk regulatory agencies outside of British Columbia; and
- provide secretariat support to the MIAC, Transportation Advisory Committee (TAC) and other working groups established from time to time by the Board.

Vendor audits are performed on a fee for service basis by the accounting firm of KPMG LLP in Chilliwack. Herd inspections, which are an integral part of the audit activity for producer-vendors, are performed by a part-time contractor. Investigation and surveillance services, when needed, are provided on a fee for service basis by licensed investigators, and the law firm Macaulay McColl provides legal services.

A list of significant accomplishments that occurred during the 2002/2003 dairy year is set out below:

- introduced Modified Cumulative 78/22 TPQ Allocation on August 1, 2002;
- changed the threshold for determining monthly eligibility for receiving the milk quality bonus effective August 1, 2002;
- implemented a process for recording and transmitting on-farm milk pick-up information for 70% of provincial milk production in October 2002 resulting in greater efficiency for obtaining this data which is key for coordinating the delivery of raw milk to processors;
- applied over-quota freight rates on January 1, 2003 for milk production over 101% of monthly entitlements;
- in recognition of escalating diesel fuel costs, introduced a diesel fuel surcharge in February 2003 to serve as a costing element for on-farm milk pick-up and delivery to processors;
- as a consequence of WTO rulings made in December 2002, amended the BCMMB Consolidated Order in March 2003 to eliminate provisions relating to Commercial Export Milk;
- with the exception of the Peace River area, implemented the "Seal-Tite" program in all freight zones on June 1, 2003; and
- decreased the reliance upon the Plant of Last Resort as the source of raw milk for some fluid milk processors thereby reducing total milk transportation and delivery costs.

During the reporting period, routine changes to published prices were made by approving amending orders to the Consolidated Order. Similar to the 2001/2002 dairy year, the 2002/2003 dairy year was characterized by frequent changes to fluid milk prices. Over the two aforementioned dairy years, there were eight changes to fluid milk prices whereas the norm is not more than two changes within a dairy year. For the 2003/2004 dairy year, a return to the norm is expected. The frequent changes to the Alberta fluid milk price were attributable to weather and crop yield factors that escalated feed input costs.

The overall goal of the Board is to continue to provide accurate and timely administrative services for producers, processors and transporters. Board operations, duties and responsibilities are constantly examined for the purpose of assessing where efficiencies can be achieved and cost savings accomplished.

Lastly, I would like to extend my appreciation to the BCMMB staff for their dedicated efforts. Their work permitted the Board to meet its regulatory obligations and its administrative and service objectives.

Thomas A. Demma, P.Ag.
General Manager

Financial Statements of

BRITISH COLUMBIA MILK MARKETING BOARD

GENERAL FUND

Year ended July 31, 2003

KPMG LLP
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AUDITORS' REPORT TO MEMBERS

We have audited the balance sheet of British Columbia Milk Marketing Board General Fund as at July 31, 2003 and the statements of revenues and expenditures, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the British Columbia Milk Marketing Board General Fund as at July 31, 2003 and the results of its operations and the changes in its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Chilliwack, British Columbia
September 24, 2003

KPMG LLP, a Canadian owned limited liability partnership established under the laws of Ontario, is a member firm of KPMG International, a Swiss association.

BRITISH COLUMBIA MILK MARKETING BOARD

GENERAL FUND

Balance Sheet

July 31, 2003, with comparative figures for 2002

	2003	2002
Assets		
Current assets:		
Cash	$ 3,035,956	$ 2,445,406
Accounts receivable (Note 3)	1,260,128	6,183,899
Prepaid expenses	5,200	10,725
	4,301,284	8,640,030
Investment (Note 4)	1,046,549	53,943
Capital assets (Note 5)	92,636	101,365
	$ 5,440,469	$ 8,795,338
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 219,855	$ 174,117
Fees payable or refundable (Note 6)	407,788	837,801
Unearned fees (Note 7)	1,302,737	4,333,433
Unearned licence revenue	144,199	153,096
	2,074,579	5,498,447
Net assets:		
Invested in capital assets	92,636	101,365
Internally restricted	1,843,575	1,843,575
Unrestricted	1,429,679	1,351,951
	3,365,890	3,296,891
Commitment (Note 11)		
Contingent liability (Note 12)		
	$ 5,440,469	$ 8,795,338

On behalf of the Board:

Chairman

Secretary-Treasurer

See accompanying notes to financial statements.

BRITISH COLUMBIA MILK MARKETING BOARD

GENERAL FUND

Statement of Revenues and Expenditures

Year ended July 31, 2003, with comparative figures for 2002

	2003	2002
Revenues:		
Other agencies (Note 8)	$ 6,275,374	$ 7,690,873
Board (Note 9)	1,792,444	1,781,761
Transportation (Note 10)	9,598,341	8,077,054
	17,666,159	17,549,688
Less transfers to other agencies (Note 8)	6,275,374	7,690,873
	11,390,785	9,858,815
Interest	128,280	208,799
Special projects expense recovery	37,732	42,183
	11,556,797	10,109,797
Expenditures:		
Amortization	23,159	25,341
Audit - Board	26,400	18,500
Audit - Vendor	191,508	161,579
Board member per diems	190,250	155,463
Committees	13,924	8,349
Consulting and contract wages	6,725	50,081
Data processing	92,756	94,289
General office and administration	286,629	302,654
Legal	33,994	76,734
Milk testing charges	121,131	184,304
Salaries and benefits	625,377	612,577
Special projects	86,295	43,421
Travel	191,309	194,385
Transportation (Note 10)	9,598,341	8,077,054
	11,487,798	10,004,731
Excess of revenues over expenditures	$ 68,999	$ 105,066

See accompanying notes to financial statements.

BRITISH COLUMBIA MILK MARKETING BOARD

GENERAL FUND

Statement of Changes in Net Assets

Year ended July 31, 2003, with comparative figures for 2002

	2003				2002
	Invested in capital assets	Internally restricted	Unrestricted	Total	Total
Balance, beginning of year	$ 101,365	$ 1,843,575	$ 1,351,951	$ 3,296,891	$ 3,191,826
Excess (deficiency) of revenues over expenditures	(23,159)	-	92,158	68,999	105,065
Change in investment in capital assets	14,430	-	(14,430)	-	-
Balance, end of year	$ 92,636	$ 1,843,575	$ 1,429,679	$ 3,365,890	$ 3,296,891

See accompanying notes to financial statements.

BRITISH COLUMBIA MILK MARKETING BOARD

GENERAL FUND

Statement of Cash Flows

Year ended July 31, 2003, with comparative figures for 2002

	2003	2002
Cash provided by (used in):		
Operating:		
Excess of revenues over expenditures	$ 68,999	$ 105,065
Items not involving cash:		
Amortization of equipment	23,159	25,341
Amortization of prepaid rent	15,894	15,894
Net changes in non-cash working capital balances relating to operations:		
Accounts receivable	4,923,771	(2,335,234)
Prepaid expenses	5,525	(10,725)
Accounts payable and accrued liabilities	45,738	70,524
Fees payable or refundable	(430,013)	(3,952,146)
Unearned fees	(3,030,695)	334,659
Unearned licence revenue	(8,898)	136,343
	1,613,480	(5,610,279)
Investing:		
Purchase of capital assets	(14,430)	(35,892)
Increase in investment	(1,008,500)	(6,000)
	(1,022,930)	(41,892)
Increase (decrease) in cash position	590,550	(5,652,171)
Cash position, beginning of year	2,445,406	8,097,577
Cash position, end of year	$ 3,035,956	$ 2,445,406
Supplementary cash flow information:		
Interest received	$ 105,200	$ 165,965

See accompanying notes to financial statements.

BRITISH COLUMBIA MILK MARKETING BOARD

GENERAL FUND

Notes to Financial Statements

Year ended July 31, 2003

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1. General:

(a) The British Columbia Milk Marketing Board ("the Board") is a regulatory body which receives its authority under the Natural Products Marketing (B.C.) Act, the British Columbia Milk Marketing Board Regulation, the Milk Industry Act, the Agricultural Products Marketing Act, the British Columbia Milk Order, the Canadian Dairy Commission Act, and the Dairy Products Marketing Regulations. The General Fund includes all statutory activities of the Board with the exception of Milk Pool Equalization Fund which is accounted for as a distinct fund and reported on separately.

Effective October 1, 2001, the Board became the first receiver of raw milk. As a consequence the Board acts as a facilitating intermediary between producers and processors with respect to the transportation and sale of raw milk.

The Milk Pool Equalization Fund has $407,926,268 in equalization revenue and $407,926,268 in equalization expenditures and $40,126,413 in assets and liabilities to July 31, 2003 which are not included in these financial statements.

(b) The Board remits Equalization payments to the Canadian Dairy Commission ("CDC"). The CDC receives the funds in respect of milk and dairy products in inter-provincial trade and, as agent for the Board, distributes them pursuant to prevailing pooling agreements, and, in respect of milk and dairy products in international export trade, pursuant to the above legislation.

2. Significant accounting policies:

(a) Unearned fees:

Unearned fees consists of:

i) the difference between the world price received by producers and domestic price paid by processors for milk shipments assessed by the Board based on individual producer's market share quotas and those computed by the CDC based on the aggregate provincial allotment of quota for the dairy year;

ii) distributions of any surpluses from the marketing operations of the CDC for the year; and

iii) amounts retained by the Board in case of processor default.

The Board exercises discretion over the use of these funds. At the discretion of the Board in any year following the recording of unearned fees, the amounts may be appropriated as revenue or redistributed to producers. Appropriated revenues are recorded as internally restricted funds until utilized by the Board.

2. Significant accounting policies (continued):

(b) Investments:

The investment in Central Agricultural Facility Ltd. is recorded on the equity basis which approximates cost.

(c) Capital assets:

Capital assets are recorded at cost.

Amortization of office equipment has been provided in the accounts on a declining balance basis at an annual rate of 20% calculated on the unamortized balance at the end of the year.

(d) Transportation:

Transportation revenues and expenses are recorded when the services are performed.

(e) Use of estimates:

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

3. Accounts receivable:

	2003	2002
Milk Pool Equalization Fund	$ 1,011,909	$ 6,183,899
Accounts receivable - trade	248,219	-
	$ 1,260,128	$ 6,183,899

4. Investment:

	2003	2002
Investment in a 50% owned subsidiary, Central Agricultural Facility Ltd.		
Advances representing:		
Prepaid rent	$ 109,250	$ 109,250
Less amortized to rent expense	(103,951)	(88,057)
	5,299	21,193
Advances without interest or fixed terms of repayment	1,041,250	32,750
	$ 1,046,549	$ 53,943

5. Capital assets:

	2003			2002
	Cost	Accumulated amortization	Net book value	Net book value
Office equipment	$ 220,614	$ 127,978	$ 92,636	$ 101,365

6. Fees payable or refundable:

	2003	2002
Fees payable:		
Dairy Farmers of Canada - Promotion	$ -	$ 256,163
Other fees payable to producers, processors or third parties:		
Quality bonus fees	253,645	285,769
Skim-off payable to Dairy Farmers of Canada	93,524	88,839
Marketing costs and losses fees	50,619	59,946
Security deposit payable to vendor	10,000	-
Fees payable for interprovincial hauling	-	147,084
	407,788	581,638
	$ 407,788	$ 837,801

7. Unearned fees:

	2003	2002
Balance, beginning of year	$ 4,333,433	$ 3,998,774
Add:		
Over quota - domestic/world price differential	339,307	2,315,001
Interprovincial freight	937,851	462,463
Vendor default levy	60,565	50,448
	5,671,156	6,826,686
Less:		
Over quota- domestic/world price differential paid to producers	2,315,003	1,519,362
In quota fees paid to producers	953,331	515,568
Interprovincial freight paid to transporters	1,100,085	458,323
	4,368,419	2,493,253
Balance, end of year	$ 1,302,737	$ 4,333,433

8. Fees - producers, processors or other agencies:

During the year the following fees were assessed by the Board for remittance to producers, processors or other agencies:

	2003	2002
Assessed on processors for remittance to producers:		
Quality bonus	$ 1,413,039	$ 1,307,123
Marketing costs and losses fees	1,660,320	1,678,013
Assessed on processors for remittance to plant of last resort:		
Accommodation fees	1,815,848	1,815,538
Assessed on producers for remittance to Dairy Farmers of Canada:		
Promotion	1,386,167	2,890,199
	$ 6,275,374	$ 7,690,873

On February 1, 2003, the Dairy Industry Development Council was formed. Promotion fees assessed and remitted of $1,434,122 are now reported in the Equalization Fund.

9. Board fees:

During the year the following fees were assessed by the Board:

	2003	2002
Assessed on producers:		
Administration fees	$ 969,049	$ 968,943
Licence fees	139,280	142,764
	1,108,329	1,111,707
Assessed on GEP applicants	9,350	9,050
Assessed on processors:		
Administration fees	665,811	650,062
Licence fees	6,590	7,342
	672,401	657,404
Assessed on transporters:		
Licence fees	2,364	3,600
	$ 1,792,444	$ 1,781,761

10. Transportation:

	2003	2002
Transportation revenue	$ 9,574,631	$ 8,048,214
Handling revenue	23,710	28,840
	$ 9,598,341	$ 8,077,054
Transport haulers	$ 12,126,000	$ 9,683,682
Data collection	11,218	271,611
Salaries and benefits	226,201	163,446
Management contract	40	66,366
Travel	1,413	2,479
Rent	7,200	-
Milk testing shortfall	196,386	-
Costs recovered from milk pool equalization fund	(2,970,117)	(2,110,530)
	$ 9,598,341	$ 8,077,054
Total milk shipments in hectolitres	6,056,298	5,046,266

11. Commitment:

The Board rents its office premises under a sub-lease covering the period December 1, 1997 to November 30, 2003. Lease payments are $8,600 per month effective May 1, 2002 (see Note 12).

12. Contingent liability:

The Board is a guarantor of the head lease between Central Agricultural Facility Ltd. ("CAFL") and the ultimate landlord of the business premises utilized by the Board. The Board is jointly liable under the head lease for lease payments to the landlord of $9,000 per month through November 30, 2003.

The Board has provided a $250,000 mortgage guarantee for CAFL for the purchase of a building.

13. Related party transactions:

Included in general office and administration expense is $96,000 (2002 - $97,800) in lease payments and $15,894 (2002 - $15,894) in amortized prepaid rent to lease facilities from CAFL.

The Board is a 50% shareholder in CAFL. During the year the Board advanced $1,000,000 to CAFL to purchase an office building for the use by the Board and other tenants.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

14. Fair value of financial assets and financial liabilities:

The fair value of the Board's cash, accounts receivable, accounts payable and accrued liabilities, fees payable or refundable, unearned fees and unearned licence revenue approximate their carrying values.

15. Comparative figures:

Certain of the prior year's figures shown for comparison have been reclassified to conform with the current year's financial statement presentation.

Financial Statements of

BRITISH COLUMBIA MILK MARKETING BOARD

MILK POOL EQUALIZATION FUND

Year ended July 31, 2003

KPMG LLP
Chartered Accountants
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AUDITORS' REPORT TO THE DIRECTORS OF THE BRITISH COLUMBIA MILK MARKETING BOARD

We have audited the balance sheet of British Columbia Milk Marketing Board Equalization Fund as at July 31, 2003 and the statement of revenue and expenditures for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the British Columbia Milk Marketing Board Milk Pool Equalization Fund as at July 31, 2003 and the results of its operations for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Chilliwack, British Columbia
September 24, 2003

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BRITISH COLUMBIA MILK MARKETING BOARD

MILK POOL EQUALIZATION FUND

Balance Sheet

July 31, 2003, with comparative figures for 2002

	2003	2002
Assets		
Cash	$ 17,650,267	$ 19,412,360
Accounts receivable	22,476,146	18,131,615
	$ 40,126,413	$ 37,543,975
Liabilities		
Accounts payable (Note 3)	$ 39,958,415	$ 37,365,979
Long-term accounts payable (Note 4)	167,998	177,996
	$ 40,126,413	$ 37,543,975

On behalf of the Board:

Chairman

Secretary-Treasurer

See accompanying notes to financial statements.

BRITISH COLUMBIA MILK MARKETING BOARD

MILK POOL EQUALIZATION FUND
Statement of Revenue and Expenditures

Year ended July 31, 2003, with comparative figures for 2002

	2003	2002
Revenue:		
Equalization receipts	$ 407,752,965	$ 341,286,041
Other agencies (Note 5)	5,653,057	2,717,406
Interest	173,303	107,444
	413,579,325	344,110,891
Less transfers to other agencies (Note 5)	5,653,057	2,717,406
	407,926,268	341,393,485
Expenditures:		
Payments to Canadian Dairy Commission:		
Special classes pooling	10,364,813	15,257,626
Western milk pool equalization	3,900,000	3,900,000
Over quota - domestic/world price differential	2,316,110	3,561,435
	16,580,923	22,719,061
Transportation shortfall charged to the milk pool equalization fund	2,970,117	2,110,530
Equalization payments to producers	388,375,228	316,563,894
	407,926,268	341,393,485
Excess of revenue over expenditures	$ -	$ -

See accompanying notes to financial statements.

BRITISH COLUMBIA MILK MARKETING BOARD

MILK POOL EQUALIZATION FUND
Notes to Financial Statements

Year ended July 31, 2003

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1. General:

The British Columbia Milk Marketing Board ("the Board") is a regulatory body which receives its authority under the Natural Products Marketing (B.C.) Act, the British Columbia Milk Marketing Board Regulation, the Milk Industry Act, the Agricultural Products Marketing Act, the British Columbia Milk Order, the Canadian Dairy Commission Act, and the Dairy Products Marketing Regulations.

Effective October 1, 2001, the Board became the first receiver of raw milk. As a consequence the Board acts as a facilitating intermediary between producers and processors with respect to the transportation and sale of raw milk.

The Milk Pool Equalization Fund is the method used by the Board to enable producers to participate in all of the sales in each of the Milk Classes established by the Board proportionate to the quota allotted to each producer.

These statements do not include the general fund operations of the Board which are reported separately.

2. Western Milk Pool:

Effective March 1, 1997 the four western provinces, British Columbia, Alberta, Saskatchewan and Manitoba and the Canadian Dairy Commission made an agreement named the Western Milk Pooling Agreement. The purpose of the Agreement is to extend the pooling arrangements within each of the provinces so that all producer returns are pooled among producers in all of the western provinces, as if the western provinces constituted a single market.

3. Related fund balances:

Included in accounts payable is an amount of $1,011,909 (2002 - $6,183,899) owing to the Board's General Fund. These amounts represent equalization obligations charged to producers through the Milk Pool Equalization Fund, transportation shortfall charged to the pool, and levies due.

4. Long-term accounts payable:

This amount represents an accumulation of the excess of equalization receipts over equalization payments. It is used to ensure adequate funds are available to meet cash flow needs. The Board does not intend to pay this amount within the next year, accordingly it is classified as a long-term accounts payable.

5. Other agencies:

During the year the following fees were assessed by the Board for remittance to other agencies:

	2003	2002
Assessed on producers for remittance to BC Milk Producers Association		
Association levy	$ 208,895	$ 357,830
Assessed on producers for remittance to Dairy Products Promotional Fund		
Promotion	1,728,359	2,329,777
Ministry penalties	39,026	29,799
Assessed on producers for remittance to Dairy Industry Development Council		
DFC Promotion	1,434,122	-
Association levy	231,280	-
Promotion	1,975,221	-
Ministry penalties	36,154	-
	$ 5,653,057	$ 2,717,406

Effective February 1, 2003, the Board commenced paying the Dairy Farmers of Canada promotion fee to the Dairy Industry Development Council, which in the past was paid by the General Fund to the Dairy Farmers of Canada.

6. Use of estimates:

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenditures during the reported period. Actual results could differ from those estimates.

7. Statement of cash flow:

A statement of cash flow has not been prepared as the information is readily apparent from the financial statements presented.

8. Fair value of financial assets and financial liabilities:

The fair value of the Board's cash, accounts receivable and accounts payable approximate their carrying amounts.

STATISTICAL OVERVIEW

On July 31, 2003 there were 680 milk producers in British Columbia. A breakdown of producer populations and quota distribution by region is presented in Table 1 of Appendix A.

Statistical information on milk production, utilization and sales is presented in Tables 2 to 4 in Appendix A. During the 2002/2003 dairy year 605,657,026 litres of milk were produced in British Columbia (see Table 2). Of this total production, 355,184,287 litres were utilized in the Class 1 market (see Table 3 for a breakdown of Class 1 milk sales by product) and 250,472,739 litres were used in the processing of non-fluid dairy products.

Total milk production in British Columbia increased by 7,803 litres during the period from August 1, 2002 to July 31, 2003 over the corresponding period in 2001 and 2002 (see Table 2). Class 1 utilization during the August 1, 2002 to July 31, 2003 period decreased by 2,124,512 litres or 0.595 percent over the same period in 2001 and 2002 (see Table 2). Industrial milk utilized during the 2002/2003 dairy year compared to the 2001/2002 dairy year increased by 2,132,315 litres or 0.859 percent (see Table 2).

On March 1, 1997 the Western Milk Pool (WMP) was formed consisting of British Columbia, Alberta, Saskatchewan and Manitoba. Production and sales figures for the WMP from August 1, 2002 to July 31, 2003 are presented in Table 4 of Appendix A. Total production of butterfat in the WMP was 62,798,927 kilograms during the 2002/2003 dairy year (see Table 4). Class 1 milk sales in the WMP during the same period were 866,812,112 litres (see Table 4).

There were 33 dairy plants licensed by the Board to process milk as at July 31, 2003. Licensing statistics are provided in Table 5 of Appendix A.

GOING CONCERN SALES AND OTHER TRANSFERS

There were 66 transfers of Total Production Quota (TPQ) during the 2002/2003 dairy year that were completed without the use of the quota exchange. Amongst these 66 transactions were 15 partial transfers, 12 family transfers, 16 name changes and 8 merge/splits that accounted for 1,530,586 kilograms of the total kilograms transferred. Going concern sales resulted in 177,252 kilograms of TPQ being transferred. The Board assessed 10,337 kilograms under its assessment policy. Details of TPQ transfers during the 2002/2003 dairy year are shown in Table 6 of Appendix A.

QUOTA EXCHANGE

Two quota exchanges were run every month except for July as there are no transfers effective August 1. Details of the quota exchange market clearing prices for the 2002/2003 dairy year are given in Table 7 of Appendix A.

PROVINCIAL/FEDERAL MANUFACTURED MILK QUOTA

The Manufactured Milk Quota (MMQ) allocated to British Columbia for the 2002/2003 dairy year was 8,361,425 kilograms of butterfat on August 1, 2002. This was increased to 8,585,981 kilograms on November 1, 2002 and then 8,749,204 kilograms on February 1, 2003. The MMQ was further increased to 8,926,269 kilograms on April 1, 2003 and then 9,203,055 kilograms on June 1, 2003. British Columbia produced 124,973 kilograms of butterfat under the Domestic Dairy Product Innovation Program. British Columbia's deemed MMQ under the Western Milk Pooling Agreement was 10,841,239 kilograms as of July 31, 2003.

GRADUATED ENTRY PROGRAM

To provide a major portion of the quota necessary for the Graduated Entry Program (GEP), a transfer assessment policy was introduced in August 1986 for fluid quota and in January 1991 for MMQ. The assessment was reduced from 10% to 5% in April 1995. Effective August 1, 1999 the transfer assessment policy was discontinued for TPQ sold on the quota exchange. During the 2002/2003 dairy year the TPQ transfer assessment remained at 5% for going concern sales and partial transfers. Details of the GEP are provided in Tables 8 and 9 of Appendix A.

PRODUCER REVENUE AND MILK COMPOSITION

During the 2002/2003 dairy year the average producer grossed between $61.03 and $65.80 per hectolitre of within-quota milk. After including the Marketing Costs and Losses Levy refund and the milk quality bonus, the average producer grossed between $61.45 and $66.22 per hectolitre of within-quota milk. Details of monthly revenue, milk composition and prices are summarized in Tables 10 and 11 of Appendix A.

VENDOR AUDITS

Throughout the 2002/2003 dairy year the auditing of licensed vendors followed the Board established vendor audit schedule. Although vendors were typically audited on a quarterly basis, the specific frequency for each vendor conformed to risk assessment principles. Characteristics such as plant size and product variety influenced the frequency of vendor audits. Larger vendors were audited from four to six times during the dairy year while two audits were the norm for smaller vendors.

As was expected for the 2002/2003 dairy year, vendor auditors uncovered variances that were characterized as insignificant when examined from the perspective of the total value of milk delivered each month by producers. The finding of variances by vendor auditors is not uncommon because vendors capture and record large amounts of data, and slight over or under reporting can occur. There was no trend evident among any of the licensed vendors that the incidence of audit variances exceeded normalcy.

Upon identification, audit variances were incorporated into subsequent monthly equalization pools as audit adjustments. A review of the audit adjustments made during the 2002/2003 dairy year as set out in each of the monthly producer equalization pools serves to demonstrate that audit variances have occurred. However, they have not been of a nature where the monthly blend price or the monthly value for any of the three milk components has been significantly affected.

SUMMARY OF LEGAL PROCEEDINGS INITIATED OR RESOLVED DURING THE 2002 - 2003 DAIRY YEAR

Other than appeals to the B.C. Marketing Board, there were no legal proceedings initiated during the period from August 1, 2002 to July 31, 2003.

SUMMARY OF APPEALS TO THE B.C. MARKETING BOARD INITIATED OR RESOLVED DURING THE 2002 - 2003 DAIRY YEAR

Claus Schwuchow

An appeal filed in April 2003 by Claus Schwuchow, a licensed producer, resulted from a decision of the Board concerning the Graduated Entry Program. The appeal was withdrawn in June 2003.

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TABLE 1 - Regional Statistics for British Columbia as at July 31, 2003

Region	Number of Producers*	TPQ Allotted (kg)
1 - Fraser Valley	473	15,970,570
2 - Vancouver Island South	48	1,735,990
3 - Vancouver Island North	25	994,404
4 - Bulkley Valley	14	263,830
5 - Cariboo	9	308,863
6 - Kootenays	12	485,524
7 - Okanagan	94	2,634,952
8 - Peace River	5	120,195
Total	680	22,514,328

* Includes licensed producers in Class C and Class D Restricted

TABLE 2 - Qualifying Milk Production in British Columbia for the 2002/2003 and 2001/2002 Dairy Years

	PRODUCTION		UTILIZATION CLASS 1		UTILIZATION OTHER CLASSES	
	Total Litres	Daily Average Litres	Total Litres	Daily Average Litres	Total Litres	Daily Average Litres
2002/2003 Totals	605,657,026	1,659,334	355,184,287	973,108	250,472,739	686,227
2001/2002 Totals	605,649,223	1,659,313	357,308,799	978,928	248,340,424	680,385
Volume Change	7,803	21	-2,124,512	-5,821	2,132,315	5,842
Percent Change	0.001%	0.001%	-0.595%	-0.595%	0.859%	0.859%

Notes: Table 2 includes milk utilized in Class 1(b)(ii) and Class 1(d), whereas Table 3 does not.
Table 2 does not include milk used for non-fluid purposes produced by Cottage Industry Producer Vendors.

TABLE 3 - Class 1 Milk Sales in British Columbia for the 2002/2003 and 2001/2002 Dairy Years

	2002/2003 Litres	2001/2002 Litres	Volume Change	Percent Change
Homogenized Milk (3.25%B.F.)	64,775,683	66,135,649	-1,359,966	-2.06%
Skim Milk (2%B.F.)	126,217,144	127,754,307	-1,537,163	-1.20%
Skim Milk (1%B.F.)	75,626,860	75,422,657	204,203	0.27%
Skim Milk (<0.5%B.F.)	49,086,568	48,810,664	275,904	0.57%
Chocolate Milk	9,743,779	10,333,929	-590,150	-5.71%
Buttermilk	3,203,659	3,204,577	-918	-0.03%
Light Cream (10%B.F.)	15,109,294	15,309,996	-200,702	-1.31%
Cream (18%B.F.)	2,669,772	1,877,062	792,710	42.23%
Whipping Cream (32%B.F.)	5,604,744	5,750,922	-146,178	-2.54%
Eggnog	1,063,361	743,383	319,978	43.04%
Cordials	174,037	565,660	-391,623	-69.23%
All Products	353,274,901	355,908,806	-2,633,905	-0.74%

Note: Table 3 does not include milk utilized in Class 1(b)(ii) and Class 1(d), whereas Table 2 does.

TABLE 4 - Western Milk Pool Statistics for the Period from August 1, 2002 to July 31, 2003

	CLASS 1 SALES (LITRES)	% OF CLASS 1 SALES (LITRES)	CLASS 1 SALES PLUS EXCLUSION (LITRES)	AVG. B/F ALL MILK (KG/HL)	CLASS 1 SALES PLUS EXCLUSION (KG)	DEEMED CLASS 1 (KG)	DEEMED INDUSTRIAL (KG)	TOTAL PRODUCTION (KG)
Manitoba	111,124,265	12.82%	115,912,710	3.7705	4,372,991	5,601,795	5,195,513	10,797,308
Saskatchewan	62,231,238	7.18%	65,424,080	3.6850	2,414,566	4,013,603	3,625,202	7,638,805
Alberta	338,273,033	39.02%	347,612,683	3.6009	12,525,667	11,512,354	10,705,588	22,217,942
British Columbia	355,183,576	40.98%	363,622,968	3.6565	13,304,797	11,490,272	10,654,600	22,144,872
TOTAL	866,812,112	100.00%	892,572,441	3.6590	32,618,021	32,618,024	30,180,903	62,798,927

TABLE 5 - Licensing Information for British Columbia

CLASS OF LICENCE	A	B	C	D RESTRICTED	H
ISSUED BETWEEN AUGUST 1, 2002 AND JULY 31, 2003	18	14	725	4	14
CANCELLED BETWEEN AUGUST 1, 2002 AND JULY 31, 2003	0	3	49	0	0
IN EFFECT JULY 31, 2003	18	11	676	4	14
IN EFFECT JULY 31, 2002	17	13	690	4	17

CLASS A LICENCE - VENDORS PROCESSING BOTH FLUID AND NON FLUID MILK PRODUCTS

CLASS B LICENCE - VENDORS PROCESSING ONLY NON FLUID MILK PRODUCTS

CLASS C LICENCE - PRODUCERS ALLOTTED TOTAL PRODUCTION QUOTA

CLASS D RESTRICTED LICENCE - PRODUCERS ALLOTTED TOTAL PRODUCTION QUOTA AND PROCESSING MILK ON THEIR FARM INTO NON FLUID PRODUCTS

CLASS H LICENCE - TRANSPORTERS OF MILK

TABLE 6 - Quota Transfers in British Columbia from August 1, 2002 to July 31, 2003

Quota Exchange	Kilograms
Unused TPQ	152,968
Used TPQ	212,308
Going Concern Transfers	
Unused TPQ	129,685
Used TPQ	47,567
Partial Transfers	
Unused TPQ	40,795
Used TPQ	9,106
Other Transfers	
Family	540,638
Name Changes	784,009
Merge/Splits	156,038
TOTAL ALL TRANSFERS	**2,073,114**

TABLE 7 - Quota Exchange Market Clearing Prices in British Columbia from August 2002 to July 2003

	First Quota Exchange		Second Quota Exchange	
Month	Unused TPQ ($/kg)	Used TPQ ($/kg)	Unused TPQ ($/kg)	Used TPQ ($/kg)
Aug-02	$60.50	N/A*	$65.50	N/A*
Sep-02	$63.25	N/A*	$63.00	N/A*
Oct-02	$61.25	$54.00	$60.25	-
Nov-02	$59.50	$52.00	$60.00	-
Dec-02	$62.00	$53.00	$65.00	$54.50
Jan-03	$71.00	$60.00	$72.25	-
Feb-03	$74.00	$59.50	$75.25	$60.00
Mar-03	$75.00	$63.00	$75.00	$64.00
Apr-03	$74.25	$64.50	$75.00	$66.00
May-03	-	$65.00	$75.25	$64.00
Jun-03	$74.25	$66.25	$65.00	$68.00
Jul-03	N/A**	N/A**	N/A**	N/A**

* No Used TPQ Exchanges in August and September
** No Unused or Used TPQ Exchanges in July

TABLE 8 - Number of Producers Started on the Graduated Entry Program

Year	Fraser Valley	Okanagan	Bulkley Valley	Kootenays	Cariboo	Peace River	Vancouver Island	Total
1993	5	2						7
1994	5							5
1995	6	1						7
1996	8	2						10
1997	9	1						10
1998	6	4						10
1999	2	2						4
2000	2							2
2001	4	2	2					8
2002	3							3

TABLE 9 - Total Production Quota Allotted to Graduated Entry Program Participants

Year	Producers Started on Program	Initial Allotment of Total Production Quota (Kilograms)	Matching Allotment of Total Production Quota (Kilograms)	Total Allotment (Kilograms)
1997	10	29,500	30,431	59,931
1998	10	29,500	32,914	62,414
1999			1,414	1,414
2000			1,599	1,599
2001			1,404	1,404
		Temporary Allotment of Total Production Quota (Kilograms)		
1999	4	28,000		28,000
2000	2	14,000		14,000
2001	8	62,000		62,000
2002	3	21,000		21,000

TABLE 10 - Gross Monthly Producer Revenue from August 2002 to July 2003

MONTH	STANDARD HECTOLITRE REVENUE ($/HL)			AVERAGE BC HECTOLITRE REVENUE ($/HL)		
	STANDARD HECTOLITRE	PLUS MARKETING COSTS & LOSSES LEVY REFUND ($0.17 PER HL)	PLUS QUALITY BONUS ($0.25 PER HL)	AVERAGE BC HECTOLITRE	PLUS MARKETING COSTS & LOSSES LEVY REFUND ($0.17 PER HL)	PLUS QUALITY BONUS ($0.25 PER HL)
Aug-02	60.81	60.98	61.23	61.03	61.20	61.45
Sep-02	63.45	63.62	63.87	64.40	64.57	64.82
Oct-02	61.48	61.65	61.90	63.63	63.80	64.05
Nov-02	60.81	60.98	61.23	63.44	63.61	63.86
Dec-02	61.71	61.88	62.13	64.00	64.17	64.42
Jan-03	63.30	63.47	63.72	65.11	65.28	65.53
Feb-03	62.35	62.52	62.77	63.23	63.40	63.65
Mar-03	64.84	65.01	65.26	65.80	65.97	66.22
Apr-03	64.02	64.19	64.44	64.54	64.71	64.96
May-03	65.39	65.56	65.81	65.13	65.30	65.55
Jun-03	66.15	66.32	66.57	65.03	65.20	65.45
Jul-03	64.65	64.82	65.07	63.31	63.48	63.73

Notes: From Aug-02 to Jan-03, a standard hectolitre contained 3.6000 kg of butterfat, 3.2260 kg of protein and 5.6777 kg of other solids.
From Feb-03 to Jul-03, a standard hectolitre contained 3.6000 kg of butterfat, 3.2557 kg of protein and 5.6713 kg of other solids.
Table 11 contains the average component tests for a hectolitre of milk produced in the province of British Columbia.

TABLE 11 - Monthly Milk Composition and Prices from August 2002 to July 2003

MONTH	AVERAGE COMPONENT TESTS			MILK COMPONENT PRICES		
	BUTTERFAT (KG/HL)	PROTEIN (KG/HL)	OTHER SOLIDS (KG/HL)	BUTTERFAT ($/KG)	PROTEIN ($/KG)	OTHER SOLIDS ($/KG)
Aug-02	3.5514	3.2669	5.6841	4.8064	10.8561	1.4938
Sep-02	3.6155	3.3088	5.6609	5.4758	10.7874	1.5737
Oct-02	3.7241	3.3726	5.6486	5.0132	10.7311	1.5532
Nov-02	3.8001	3.3851	5.6435	4.9172	10.6595	1.5361
Dec-02	3.7902	3.3527	5.6528	5.0473	10.7740	1.5476
Jan-03	3.7509	3.3201	5.6733	5.1942	11.0453	1.5790
Feb-03	3.7125	3.2851	5.6794	4.8411	11.1377	1.5263
Mar-03	3.7004	3.2907	5.7005	5.2182	11.3680	1.5938
Apr-03	3.6539	3.2736	5.7027	5.0450	11.3452	1.5729
May-03	3.5842	3.2336	5.7200	5.2635	11.4937	1.5907
Jun-03	3.5186	3.1943	5.6864	5.2352	11.7223	1.6117
Jul-03	3.4914	3.1824	5.7007	4.8563	11.7425	1.5761